

Cairn Energy PLC

Market Consensus

Business Description

Cairn Energy, a petrol and gas company based in Scotland and formed in 1980 by Bill Gammell, a former international rugby player. Cairn Energy plc is engaged in the exploration, development and production of oil and gas in India, Bangladesh and Nepal. Its Indian assets are managed by Cairn India Limited, and its assets in Bangladesh and Nepal are held by Capricorn Energy Limited. During the year ended December 31, 2006, its operational activity in western India was focused on the appraisal of Block RJ-ON-90/1 (70%-owned) in Rajasthan, India. Cairn India operates Block CB/OS-2 in the Cambay Basin, located to the south of the Rajasthan Basin. In western India, Cairn India has interest in Block CB-ONN-2001/1, Block CB-ONN-2002/1 and Block GS-OSN-2003/1. It also operates in eastern India. In Bangladesh, Capricorn has interest in the Sangu joint venture, Blocks 5, 10 and 7, and in Nepal, it has interest in Blocks 1, 2, 4, 6 and 7 in the Himalayan Foreland Basin. In 2006, its gross operated production across South Asia was 105,028 barrels of oil equivalent per day (boepd). Its net entitlement was 24,523 boepd.

Results and Estimates

Annual	Actual		Estimated	
	Dec-05	Dec-06	Dec-07	Dec-08
Revenue (\$mn)	263	286	270	265
Net Profit (\$mn)	79	-82	33	49
Earnings per Share (\$)	0.62	-0.64	0.29	0.22

Source: Bloomberg

Investment Summary

- Cairn India is the only pure E&P play listed in India and one of the few private oil & gas companies in Asia. It has a strong track record in all aspects of E&P, particularly in exploration where it has made 3 of the 7 "landmark" discoveries in India since 2000. We estimate Cairn India oil production will jump five-fold from 24523 boepd in 2006 to 1, 50,000 boepd by 2010E.

Cairn Energy Plc

Sector: Energy

Industry: Oil and Gas Producers

Key Statistics

Price (12/06/2007): 1781.00p

52- Week High: 2024.62p

52- Week Low: 1540.00p

Exchanges: LON

Index: FTSE 100

Sector: Oil and gas producers

Bloomberg: CNE.LN

Shares Issued: 130.54m

Market Cap: £ 2,275.36m

Beta: 1.32

2007E Revenue: 270 (\$mn)

2007E Income: 33 (\$mn)

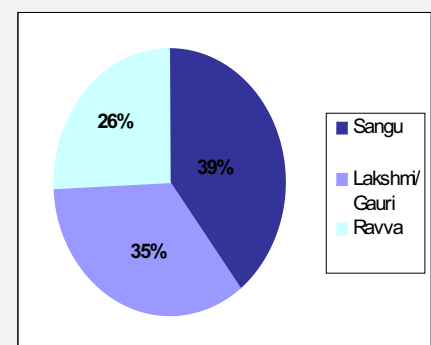
2007E EPS: 0.29 (\$)

Web Site: www.cairnenergy.plc.uk

Price Performance (in GBP)



Oil Production - FY 06

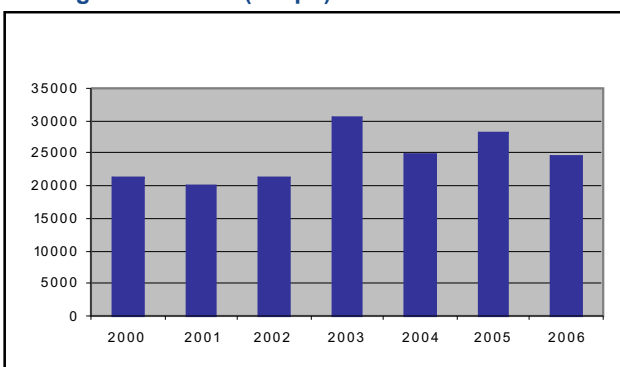


- CIL's (Cairn India Ltd.) "crown jewel" is the Rajasthan oil and gas development, which includes the largest onshore oil discovery made in India for 22 years. Gross reserves and resources are estimated at up to 0.9m bbl. When peak production of 150kbpd is reached (2010E) the project will represent 20% of India's crude production
- Cairn India, the Indian subsidiary of Scottish firm Cairn Energy, plans to invest over US\$ 2.02 bn in its prolific Rajasthan block, home to the largest onshore oil discovery in more than two decades.
- Cairn also plans to invest \$1.5bn in the giant Mangala field alone over the life of the field till 2014, in order to strengthen its position further. Mangala is the largest of the 18 discoveries the company has made in the Rajasthan block, where the company estimates an in place reserve of 3.6 billion barrels.
- Out of the \$1.98bn raised through the IPO of its Indian subsidiary, the company plans to return \$940mn to its shareholders, use \$600mn for strengthening its Indian business and \$300mn for international exploration.
- We remain of the view that a weak USD, rising costs and limited visibility on new sources of long-term non-OPEC supply strengthen OPEC's ability to set a floor under prices facilitated by a creeping increase in

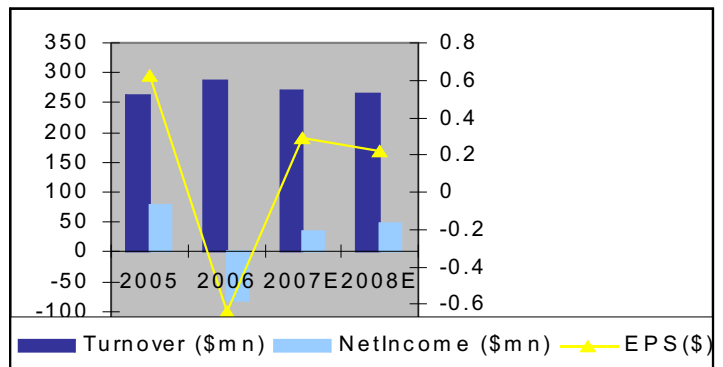
Recent Financial Performance

For the fiscal year ended 31 December 2006, Cairn Energy plc's revenues increased 9% to \$286.3M. Net loss totaled \$82M vs. a income of \$79.1M. Revenues reflect increased demand for Company's product and an increase in average price by 25% to \$31.84 per boe from \$25.44 per boe in FY05. Net loss reflects an increase in the cost of sales, higher production costs, increased exploration costs, higher depletion and decommissioning costs and an increase in the interest expenses. The company incurred a loss of \$82mn, after tax, as against the \$79mn profit made a year ago. The loss incurred by the company mainly due to the \$71.5mn downgrade reserves revision in the Sangu Field in Bangladesh.

Average Production (boepd)



Financial Results and Estimates



Recent Stock Performance

Since the beginning of 2007(January & April), the stock has declined by 10% even with the company winning the deal to construct the Rajasthan pipeline, due to the concerns over the delay in commencing production in Mangala fields (postponed from 2008 to 2009) and the poor FY06 result. But from the last few months the stock is showing very positive trends and we expect a positive FY07 result.

Outlook

Cairn's future looks positive as the company is all set to cater to India's growing energy demands, apart from exploration now it also focusing on mid-stream activities (such as the transportation of oil and gas through pipeline), through partnerships with the Government of India and other third parties. Furthermore, the gain of \$1.1bn from the disposal of 31% of its interest in Cairn India through the IPO will be included in its FY07 results. The net projected production is expected to increase from current 24,523 (boepd) to 1, 50,000 (boepd) by 2010 as the company commences production in its various fields. Some of the key facts;

- Crude Oil demand is projected to increase to about 190 MMT by 2012s.
- Rising global Crude Oil prices have triggered increased E & P focus to expand domestic production
- Gas demand is expected to reach 330 MMSCMD by 2012
- A CAGR of 10% for the next seven years